

**California Health Facilities Financing Authority**  
**HELP II Loan Program Maximum Loan Amount Review**  
**Information Item - March 29, 2012**  
**Agenda Item # 7**

**ISSUE:**

Should the Authority raise the maximum cumulative loan amount for the HELP II Loan Program (the “Program”) from \$750,000 to \$1,000,000?

**BACKGROUND:**

At the December 1, 2011 Authority meeting, staff provided an oral report to the board regarding the findings of the Program’s recent survey, and staff recounted that several current Program borrowers recommended increasing the maximum loan amount. At this same board meeting, a staff member from the California Primary Care Association was also present and echoed this same recommendation. After the oral report, at least one Authority board member expressed interest in raising the maximum cumulative loan amount especially given the Program’s seemingly healthy fund balance<sup>1</sup>. After the presentation, the Chair directed staff to explore the possibility of raising the maximum cumulative loan amount.

**HISTORY:**

At the January 25, 2007 Authority board meeting, the board approved a number of changes to the Program including, (1) increasing the Program’s maximum cumulative loan amount from \$500,000 to \$750,000, (2) increasing the gross revenue limitation from \$20 million to \$30 million, and (3) adding rural facilities as a new eligible category. The basic loan financial eligibility criteria remained the same with a maximum loan to value (LTV) ratio of 95% and a minimum debt service coverage ratio of 1.10x. There have been no HELP II loan defaults since the maximum cumulative loan amount was raised to \$750,000.

**DISCUSSION:**

Staff believes the maximum cumulative loan amount should be increased from \$750,000 to \$1,000,000 while retaining all the existing financial eligibility criteria, but staff recognizes that increasing the maximum cumulative loan amount outstanding for any one borrower increases the risk exposure to the loan portfolio and the Program’s fund balance. Staff accordingly suggests creating a minimum floor of \$6,000,000 for the Program fund balance, thus adding a mechanism to safeguard the Program’s fund balance. If, after increasing the maximum cumulative loan amount to \$1,000,000, the Program’s fund balance decreases to the suggested floor, additional loans over the \$1,000,000 maximum cumulative loan amount could not be considered unless the Authority board directed otherwise.

Staff requested Macias Gini & O’Connell, LLP, the Authority’s financial analyst, to perform an independent analysis, and they concluded that the loan balance may decrease to approximately \$6,000,000 in two to four years if the maximum loan amount is increased to \$1,000,000. This analysis corresponds with staff’s analysis as well<sup>2</sup>.

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<sup>1</sup> Exhibit 1 provides historical data concerning the Program’s fund balance over the last 10 years.

<sup>2</sup> Exhibit 2 shows staff’s fund balance projections assuming the increase in the loan amount is approved.

For discussion purposes, staff offers the following additional points for consideration:

- There appears to be a growing demand for larger loans. In recent months, prospective borrowers (including most recently a developmentally disabled facility, a residential care organization, and a substance abuse facility) have expressed an interest in higher loan amounts to expand their health care services.
- The Authority's current Program loan portfolio<sup>3</sup> has no defaults which might suggest the Authority can tolerate more risk.
- According to some of the Program's current borrowers, other funding sources (banks) have recently tightened their lending requirements (due to the declining economy), which has led to a reduction in the availability of funds.

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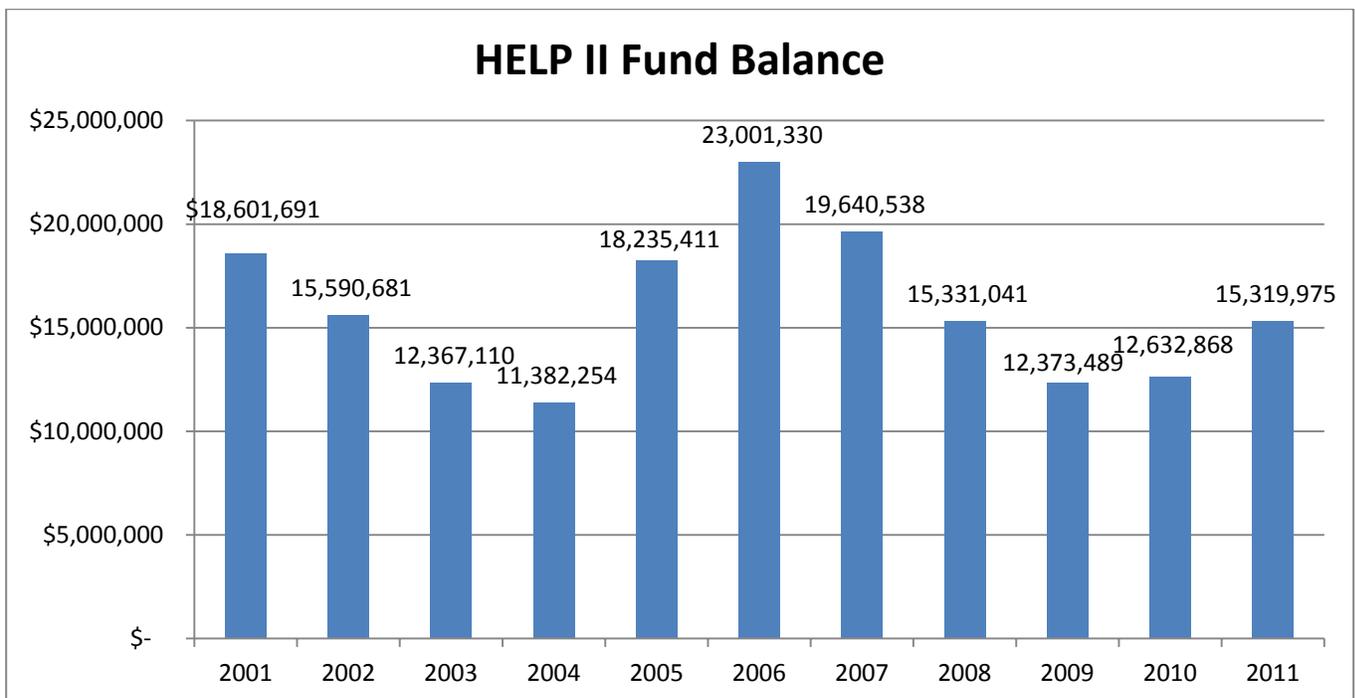
<sup>3</sup> Exhibit 3 provides the board with a quick glimpse of the types of projects and facilities financed by HELP II funds from 2007 to 2011.

## EXHIBIT 1

<b>HELP II Loan Program Analysis</b>						
As of Dec 31st	HELP II Fund Balance	Total Amount of Loans Closed	# of Loans Closed	Avg Loan Amt	Annual Income	Effect to fund balance
2001	\$ 18,601,691	\$ 2,279,900	9	\$ 253,322		
2002	15,590,681	7,670,378	24	319,599	\$ 4,659,368	\$ (3,011,010)
2003	12,367,110	7,141,000	20	357,050	3,917,429	(3,223,571)
2004	11,382,254	4,785,910	14	341,851	3,801,054	(984,856)
2005	18,235,411	2,182,000	6	363,667	9,035,157	6,853,157
2006	23,001,330	1,822,000	6	303,667	6,587,919	4,765,919
2007	19,640,538	8,360,081	16	522,505	4,999,289	(3,360,792)
2008	15,331,041	9,526,160	19	501,377	5,216,663	(4,309,497)
2009	12,373,489	7,878,000	15	525,200	4,920,448	(2,957,552)
2010	12,632,868	5,023,500	9	558,167	5,282,879	259,379
2011	15,319,975	4,943,661	10	494,366	7,630,768	2,687,107

<b>From CY 2007 to 2011</b>	
Avg Total Amount of	\$ 7,146,280
Avg # of Loans Closed	14
Avg Loan Amount	\$ 520,323
Avg Annual Income	\$ 5,610,009

\* The line in the chart above between years 2006 and 2007 marks the increase in the Program's loan amount from \$500,000 to \$750,000.



**Exhibit 1** provides historical loan data of the HELP II Loan Program from 2001 through 2011.

## EXHIBIT 2

California Health Facilities Financing Authority  
HELP II Program  
Projection of Program Performance

March 29, 2012

**Scenario 1:**

**o Highly Successful**

<b>Avg. loans / month:</b>	<b>1.15</b>	
<b>Avg. loan:</b>	<b>770,323</b>	Average loan size from 07-11 +\$250K as conservative assumption
<b>Avg. term / years:</b>	<b>15</b>	Expected term given larger loan size.
<b>Interest Rate:</b>	<b>3%</b>	
<b>Loan fee:</b>	<b>1.25%</b>	

**For The Period Ending Dec. 31,**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Estimated Income	5,610,009	5,610,009	5,826,676	5,826,676	5,826,676	5,826,676	5,826,676	5,826,676	5,826,676	5,826,676	5,826,676
<b>Loans</b>											
<i>Dollar Amount</i>		(10,630,456)	<b>(10,000,000)</b>	<b>(7,180,456)</b>	<b>(7,180,456)</b>	<b>(7,180,456)</b>	<b>(7,180,456)</b>	<b>(7,180,456)</b>	<b>(7,180,456)</b>	<b>(7,180,456)</b>	<b>(7,180,456)</b>
<i>Number</i>		<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>Fund Balance</b>											
Beginning		15,319,975	10,299,528	6,126,204	4,772,424	3,418,643	2,064,863	711,082	(642,698)	(1,996,479)	(3,350,259)
Ending	<b>\$ 15,319,975</b>	<b>\$ 10,299,528</b>	<b>\$ 6,126,204</b>	<b>\$ 4,772,424</b>	<b>\$ 3,418,643</b>	<b>\$ 2,064,863</b>	<b>\$ 711,082</b>	<b>\$ (642,698)</b>	<b>\$ (1,996,479)</b>	<b>\$ (3,350,259)</b>	<b>\$ (4,704,039)</b>

California Health Facilities Financing Authority  
HELP II Program  
Projection of Program Performance

March 29, 2012

**Scenario 2:**

**o More Realistic**

<b>Avg. loans / month:</b>	<b>1.15</b>	
<b>Avg. loan:</b>	<b>645,323</b>	Average loan size from 07-11 +\$125K as more realistic assumption
<b>Avg. term / years:</b>	<b>15</b>	Expected term given larger loan size.
<b>Interest Rate:</b>	<b>3%</b>	
<b>Loan fee:</b>	<b>1.25%</b>	

**For The Period Ending Dec. 31,**

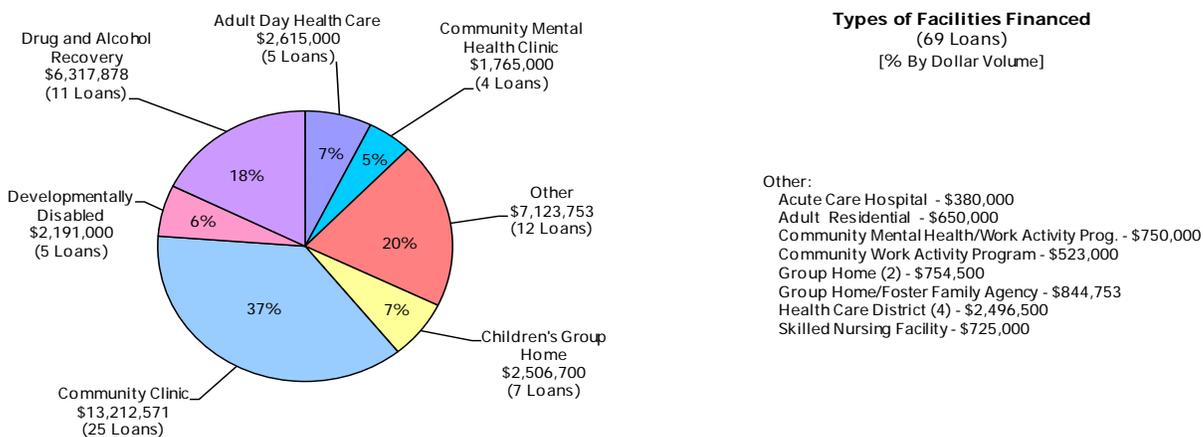
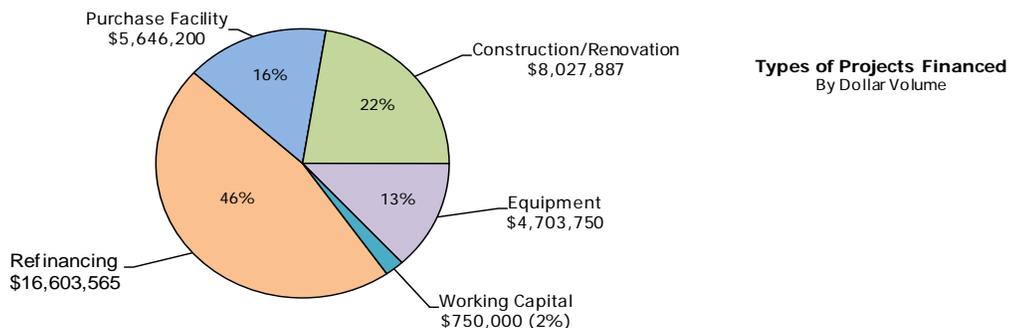
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Estimated Income	5,610,009	5,610,009	5,718,343	5,718,343	5,718,343	5,718,343	5,718,343	5,718,343	5,718,343	5,718,343	5,718,343
<b>Loans</b>											
<i>Total Dollar Amount</i>		(8,905,456)	(8,905,456)	<b>(8,000,000)</b>	<b>(7,180,456)</b>	<b>(7,180,456)</b>	<b>(7,180,456)</b>	<b>(7,180,456)</b>	<b>(7,180,456)</b>	<b>(7,180,456)</b>	<b>(7,180,456)</b>
<i>Number</i>		<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>Fund Balance</b>											
Beginning		15,319,975	12,024,528	8,837,414	6,555,757	5,093,643	3,631,529	2,169,416	707,302	(754,812)	(2,216,926)
Ending	<b>\$ 15,319,975</b>	<b>\$ 12,024,528</b>	<b>\$ 8,837,414</b>	<b>\$ 6,555,757</b>	<b>\$ 5,093,643</b>	<b>\$ 3,631,529</b>	<b>\$ 2,169,416</b>	<b>\$ 707,302</b>	<b>\$ (754,812)</b>	<b>\$ (2,216,926)</b>	<b>\$ (3,679,039)</b>

**Exhibit 2** portrays the Program's loan balance projections assuming two different scenarios as a result of implementing the increase in the maximum loan amount. The first scenario assumes a significant increase in the average loan amount to \$770,000 and the second scenario assumes a more moderate increase in the loan amount to \$645,000. As shown in the two different scenarios, it is estimated that it would take between two and three years for the fund balance to get to the recommended floor (\$6 to \$7 million dollars).

### EXHIBIT 3

#### California Health Facilities Financing Authority HELP II LOAN PROGRAM

Time Period – January 2007 to December 31, 2011  
Total Loans Funded -- \$35,731,402



Other:  
 Acute Care Hospital - \$380,000  
 Adult Residential - \$650,000  
 Community Mental Health/Work Activity Prog. - \$750,000  
 Community Work Activity Program - \$523,000  
 Group Home (2) - \$754,500  
 Group Home/Foster Family Agency - \$844,753  
 Health Care District (4) - \$2,496,500  
 Skilled Nursing Facility - \$725,000

**Exhibit 3** portrays historical data (2007 to 2011) for the Program’s projects (i.e., construction, refinance, purchase, etc.) and facilities (community clinic, drug and alcohol, etc.).